COMMONWEALTH OF MASSACHUSETTS
BEFORE THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY (DTE)

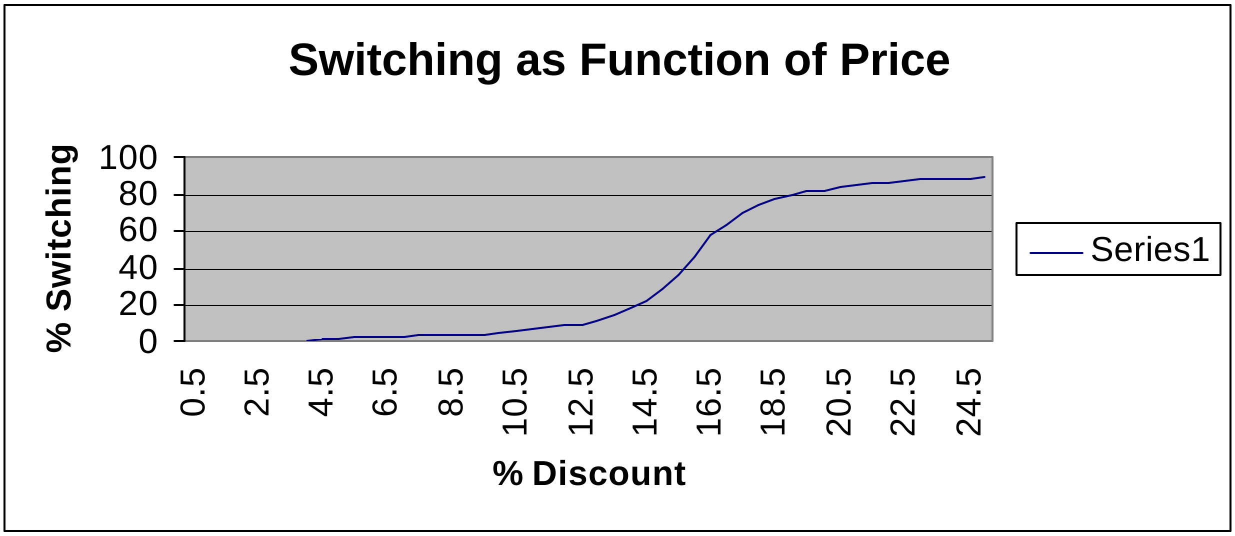
Investigation by the Department of
Telecommunications and Energy on D.T.E. 02-40
Its Own Motion into the Provision of Default Service

COMMENTS OF COMPETITVE ENERGY SERVICES-MASSACHUSETTS, LLC (CES-MA)

CES-MA is an affiliate of Competitive Energy Services and other related companies. CES or its affiliates are licensed electricity broker aggregators in Maine, New Hampshire, Massachusetts, and Connecticut. In addition CES provides brokerage services to commercial and industrial customers in New York and Texas. Currently CES serves approximately 5000 C&I accounts in these states with about 3000 of those located in Massachusetts. CES-MA customers are both Standard Offer and Default class and are approximately one third G2 and two-thirds G1 size with a small number of G3 customers in addition.

CES-MA is pleased to offer these comments to the DTE regarding Default Service. These comments are based upon CES-MA and its affiliates experience in appearing before many thousands of C&I customers in Massachusetts and elsewhere. Our first observation is that the level of customer ignorance regarding deregulation in general and Default Service in particular is very high among most customers and this ignorance is greater among smaller customers but is by no means unique to such customers. One consequence of this ignorance is a reluctance among customers to depart from the presumed security of continued generation supply from the T&D utility. Negative memories from the early telephone deregulation period are common and the expectation of similar experience upon switching electric suppliers is widespread. In Massachusetts (not available in New York or Texas) the ability to continue billing through the T&D Utility for both delivery and competitively supplied generation service can be very useful in allaying these fears. We urge that this feature be preserved. Addition public education that explains that customers will continue to receive uninterrupted service no matter what supply decision they make could be helpful.

Our second observation is a consequence of this first condition. Because electricity service and quality are completely independent of the supplier the normal sales process and comparison of price and quality is distorted. As a result it is impossible for a supplier to offer a product that is superior in quality to Default Service. Other attributes of customer service only come at the third order- they do not replace the quality axis of a normal transaction, instead they retain their low level of importance. Price is king and a discount against Default Service is necessary in order to overcome customer reluctance and compel switching. It is our experience that a certain threshold level of discount is necessary to begin the switching process, that as the level of discount rises the rate of switching first increases rapidly and then tapers off as shown below.



While the particular numbers in this chart are stylized they do indicate the basic phenomenon. In addition a more accurate representation would include a third axis for the duration and stability of time that the discount is available. The longer the discount is in place and the more stable its nature the greater the percentage of switching will occur as information regarding the opportunity for savings spreads among customers, suppliers, and brokers. In Massachusetts discounts available in comparison to Default Service have shown wide variability from significantly negative to strongly positive. In addition the duration of these conditions has also fluctuated considerably. These factors discourage Customer switching.

Finally, we offer some observations and recommendations regarding the credit relationship between Default Service and competitive service. One of the most important issues confronting competitive electricity providers (CEPs) is the issue of customer creditworthiness. For a variety of reasons, including general credit problems in the energy industry, the economic slowdown and a greater appreciation on the part of CEPs about their ability to collect past amounts due from customers that continue to receive distribution and Default Service, CEPs have tightened their credit requirements significantly for C&I customers. A greater percentage of customers are now being turned down or are being asked to place deposits, often as much as the equivalent of two (2) months worth of service. While this may be a rational response on the part of the CEPs, it will slow the rate at which customers enter the market, especially when Default Serivce requires no deposit.

Further, our experience provides strong indication that the credit verification process used by CEPs is both expensive and error-prone. Traditional sources of credit information, e.g., ratings agencies, are not available for the vast majority of C&I customers; other sources, such as Dunn & Bradstreet, are often factually wrong or not available for the smaller C&I customers, especially where ownership, location and business practices change more often; and, where credit information is not available, CEPs often default to a deposit requirement.

To address this credit issue, we propose that CEPs be permitted to deal with credit issues on the same basis as the Default provider. Specifically, a CEP may elect to shift the obligation for bad debt to the distribution utility for the same "price" that the distribution utility "charges" the Default provider, as that price is established by the DTE. Accordingly, if the allowance for bad debt in the Default Service price is 1.2%, then any CEP that elects to participate in this program will have 1.2% of the total amount invoiced by the CEP for its customers withheld by the distribution utility. In return, the distribution utility will pay the balance of the amount invoiced on an agreed upon schedule comparable to that used in its relationship with the Default provider.

In order to participate in this program, a CEP must:

1. Elect to have its customers billed by the distribution utility.
2. Commit to having all of the customers it serves in that distribution utility's service territory participate in the program. This condition will prevent the CEP from "gaming" the program by electing to only have the poorest credit customers participate.

Once a CEP has made the decision to participate in the program, it must remain in the program for a minimum period of three (3) years, after which it must commit to remaining in the program no later than six (6) months before the end of the 3-year term and such commitment must be for a subsequent 3-year period. This stability and commitment will provide further protection for the distribution utility against any possible gaming by the CEP.

In return for this commitment, the DTE may adjust the bad debt allowance percentage upward each year by a maximum of half a percentage point and no more than 1 percentage point during any 3-year period. There would be no limits placed on how much the DTE could adjust the bad debt allowance downward annually or during any 3-year period. This stability will enable the CEP to offer multi-year fixed priced contracts without the need to have the bad debt allowance be a "pass-through" amount. Of course, any CEP could structure its contract as a pass-through of the bad debt allowance at its own discretion.

In addition to lowering the costs associated with credit evaluation and the risks of customer credit performance, this proposal should also reduce the "creamskimming" that will invariably follow from increased attention to creditworthiness concerns. Once a CEP elects to participate in the program, it will have no incentive to reject any customer on the basis of credit, thereby removing perhaps the single most important raison d'etre for the Default.

While we have presented this proposal in the context of C&I customers, we believe the same opportunities should apply for those CEPs that serve residential customers. However, since the bad debt allowance is set differently for C&I load and for residential (and small commercial customers), we would permit a CEP to participate in this program for either or both its C&I or residential load. Of course, once the CEP elects to participate in the program, it must participate for all of its customers in that class and for the required minimum period.

If the DTE has any questions or wishes to talk with us further about this proposal, please give either of us a call at (207) 772-6190. If this proposal is of interest to the DTE, CES will provide the DTE with suggested modifications to its rules governing relationships between CEPs and distribution utilities.

Sincerely,

Richard Silkman	Mark Isaacson
Member	Member